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ISSUES IN HOUSING FINANCE IN CANADA: PAST ACHIEVEMENTS, PRESENT REALITY, FUTURE PROSPECTS

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I. Introduction: Past Achievements, Difficulties and Links to the Future

Canadian residential mortgage markets have shown a remarkable ability to cope with extraordinarily stressful changes over the past two decades. This is an exceptional achievement, especially when compared with the calamitous state of the residential mortgage finance market in the United States during the same time, and particularly during the past half-dozen years (Jones and Gau, 1983). In this introduction therefore, I would like to review briefly the achievements of the Canadian residential mortgage market first. I would then like to introduce a number of problem areas which will be discussed in the body of the paper.

The bulk of the discussion below will focus on several areas which have posed problems in the recent past for the residential mortgage sector. I would like to address these major issues and suggest means for dealing with them, means which are in fact completely analogous to the means used to overcome past difficulties during the previous two decades. The paper will conclude with an impressionistic assessment of the future course of residential mortgage markets in Canada and of the likelihood of successfully overcoming the problem areas set out in this paper.

Past Achievements in Canadian Mortgage Finance

Professor Lawrence B. Smith has aptly characterized the successful adaptation of the Canadian mortgage market to changing conditions as being typified by the successive removal of market imperfections so that the market could function more efficiently and effectively. Specifically, Professor Smith points out the following chronology of significant breakthroughs in the development of the Canadian mortgage finance sytstem.

Prior to the Dominion Housing Act of 1935 and the first National Housing Act of 1938, the standard mortgage instrument of the day was the balloon payment mortgage where the term of the mortgage was seldom longer than a decade and where periodic payments were for interest only. The entire loan balance was due at the end of the contract term as a balloon payment. This particular instrument created enormous imperfections from the borrower's perspective as the borrower had to be able to save the entire balloon payment over the limited term of the mortgage (5 to 10 years at the outset). The cash flow problem facing the borrower came to a head during the Great Depression when massive unemployment and declining incomes and prices combined to force borrowers into bankruptcy since they had to pay back the total loan balance in more real dollars than they borrowed just as incomes and employment declined sharply.

Government intervention, first through joint lending programmes, and then through the N.H.A. Mortgage Insurance programmes of the National Housing Act of 1954 replaced the balloon payment mortgage with the fully amortized long term mortgage where the term of the contract was identical to the amortization period ranging anywhere up to 35 and 40 years. N.H.A. insurance on mortgage loans also made them considerably more attractive to

lenders and increased the supply through cutting risk. Loan-to-value ratios were also increased steadily further easing cash flow problems for households by lowering downpayment requirements.

Other mortgage market imperfections were also removed steadily so that by 1969 the Canadian mortgage market was operating very efficiently. N.H.A. mortgage rates were set in the marketplace. Private mortgage insurance complemented N.H.A. insurance and allowed even higher ratio loans (over the 75% limit of financial institutions). The five year rollover mortgage (Jones and Gau, 1983) further increased the attractiveness of not just N.H.A. loans but of all loans with the change in the Canada Interest Act favouring five year rollovers of all consumer loans. The 1967 freeing of the Bank Act to allow banks to lend at rates in excess of 6% brought banks back into the mortgage market as a major force. The government served as a residual lender of last resort to households unable to attract mortgage financing elsewhere, in the private sector, and for low-income, student, non-profit and public housing which also could not afford market interest rates and terms. Smith concludes:

> . . . that federal housing policy prior to the 1970's was designed to operate in conjunction with the private sector. Policies were primarily aimed at stimulating residential construction by stimulating demand and by increasing the availability of mortgage credit. The main techniques for this were the removal of mortgage market imperfections, the upgrading of the NHA debt instrument, and the direct supplying of mortgage credit on a residual basis. (Smith, 1977, p. 12).

The mortgage finance system in Canada has worked extremely well over the past decade-and-a-half with two major exceptions to be discussed below: inefficient allocation of mortgage interest rate risk; the tilt-problem and household cash-flow streams. This is in stark contrast with the situation

in the United States where a number of government created and maintained imperfections have seriously impeded the ability of the mortgage market to respond to inflation, recession and disintermediation (Carron, 1982; Balderston, 1982; and Hendershott and Villani, 1977 and 1983).

In passing, it should be observed that a major study undertaken during the early 1970's for C.M.H.C. (Poapst, 1975) erroneously concluded that the only way for the Canadian mortgage market to cope with the projected demands of the 1970's would be to adopt U.S.-style institutions such as secondary mortgage markets. The study was low in its estimate of the volume of mortgages required during the 1970's and also far from the mark in the ability of the essentially free market mortgage finance system in Canada to cope with such demands upon it (Jones and Gau, 1983).

Recent and Potential Problem Areas: An Agenda for Discussion

Canada's mortgage market has performed admirably during extremely volatile and difficult times, not just in capital markets but in the Canadian economy more generally. Experience during this past decade has identified several problem areas in the current system which I want to list below. I also want to set out here several other issues of potential importance in the continued smooth functioning of the Canadian mortgage market. These problem areas taken together will form the agenda for discussion in the remainder of this paper and the basis for policy suggestions at the end.

The issues then are as follows:

1. Interest rate risk, its present allocation, efficient allocation, and means for achieving more efficient allocation;

2. The tilt problem and associated cash flow, downpayment and alternative mortgage designs intended to overcome the problem;
3. Mortgage credit availability and some potential pitfalls in availability, and policy approaches to overcoming periodic shortages or bottle-necks in mortgage credit availability.

II. The Issues Discussed: Building on Past Strategies to Remove Mortgage and Capital Market Imperfections

The strategy to be pursued here is to identify imperfections that still impede the efficient flow of capital into and within residential mortgage markets. Having identified these imperfections we can then move on to discuss means for overcoming them and mitigating their effect. In essence, we will be proposing an extension of the policy strategy that was so successful during the 1950's and 1960's in increasing the efficiency of Canadian mortgage markets.

Interest Rate Risk and Its Efficient Allocation

Interest rate risk is faced both by lenders and borrowers and derives from the possible volatility of interest rates and the resulting adverse movement of rates so that on renewal one party suffers economic loss. On the lending side, interest rate risk can be handled by matching the term of assets (mortgages) and liabilities (deposits and debt instruments). The evolution of the five-year rollover mortgage greatly reduced interest rate risk to lenders since it was now possible for them to issue five-year deposit certificates, match these against five-year rollover mortgages and

as a result lock-in a guaranteed spread and gross profit. The only hitch in this scheme derived from the possibility of prepayment of mortgages either in whole or in part if rates fell. In this case lending institutions face continued payout on their deposits at the original deposit interest rate, but they now have to issue new mortgages at lower interest rates suffering real losses. (It is highly unlikely that borrowers will prepay mortgages in periods when interest rates rise above their original contract rate, though this is possible if mortgages have a "due on sale clause" uncommon in Canada but prevalent in the U.S.).

Barring prepayments in markets with falling interest rates and barring improper matching initially, the move to five-year rollover mortgages greatly increased the attractiveness of the mortgage instrument since it allowed for almost perfect matching and therefore the virtual elimination of interest rate risk for the lender. Subsequent moves toward even shorter maturities of mortgages made this matching that much easier and extended the trend initiated in 1969 with the five-year N.H.A. rollover mortgage.

Whereas the lenders found five-year and shorter mortgage maturities ideal for dealing with interest rate risk, borrowers were being forced to absorb the risk with these shorter rollover mortgages. Borrowers prefer known and stable mortgage interest outflows (Colton, et al., 1978) and the long term mortgage of the pre-1969 era was ideal since borrowers could rely on constant monthly payments for as long as 40 years, budget for them and be immune to adverse interest rate fluctuations. Moreover, in many instances borrowers retained the right to prepay and in the event that mortgage interest rates declined from their initial contract rate, borrowers had a free option to prepay and refinance at lower rates leaving the financial

institutions to absorb the interest rate risk and suffer periodic cash flow squeezes as mortgages were prepaid but deposit (liability) obligations had to continue to be met at original interest rates. In addition, the long term of the pre-rollover mortgage put financial institutions in illiquid positions since the mortgages were not easily sold when the institutions may have incurred large cash needs. While ideal from the borrowers' vantage point the long term fixed rate mortgage was far from ideal from the lenders' perspective.

With the advent of the five-year rollover mortgage interest risk was shifted onto households away from lenders. (Households probably enjoyed some benefit from this though in that mortgages became much more attractive assets for financial institutions to hold and therefore undoubtedly the flow of mortgage credit was eased considerably to the obvious advantage of borrowers through greater choice, likely lower interest rates resulting from lender competition, and general availability of mortgage credit without the panoply of non-price rationing that occurred so often earlier and throughout the 1960's and 1970's in the U.S.). This shifting of risk to borrowers posed few problems as long as interest rates remained relatively stable. However, with the switch in U.S. Federal Reserve policy in October, 1979 interest rate volatility soared to unprecedented levels. For example, during 1978 mortgage interest rates varied from a monthly low of 10.31% (in three different months during the year) to a high of 11.53% in December. In 1979 volatility increased as rates reached a low of 11.05% in April and climbed to a high of 14.46% in November. In 1980, a low was recorded in June of 12.92% with the annual monthly high being recorded just two months earlier at 16.94% in April. By 1981 volatility reached all-time highs with

mortgage interest rates beginning the year at 15.17% peaking at 21.46% in September and then dropping off to 17.79% in December (C.M.H.C., 1982b, p. 65). To make matters worse as rates started to climb in 1979 and 1980 many borrowers took short maturity mortgages of 1 and 2 years in the belief (hope) that rates "had" to come down by renewal and many of these households had to renew during the 1981 frenzy. Just how much households had been absorbing interest rate risk came home to them in a most dramatic fashion.

The adversity suffered by households during this tumultuous period was given prominence in the national press. Several provinces sought to restrict mortgage renewals to rates no higher than some specified rate like 12% as in Saskatchewan briefly. The federal government developed an emergency relief programme for households in dire need. It became all too obvious, all too quickly that households had been asked to bear enormous interest rate risks and, more to the point, that households were ill-suited to handle such risk as they could not diversify it or hedge it on any organized hedging market due to their small scale, inadequate technical knowledge, and meager financial resources for hedging in any event.

Financial institutions, while theoretically much better able to hedge interest rate risk in organized interest hedging markets, failed to do so. Institutional inertia, lack of expertise, start up costs, and the fact that they were already hedged through matching assets and liabilities all contributed to the absence of innovation on their part. In the void only government was in a position to act which C.M.H.C. did through studies of, and a quest for mortgage renewal insurance (hereafter MRI).

A study of the potential hedging effectiveness of using the Chicago Board of Trade GNMA Mortgage Backed Security Futures Market (Gau and

Goldberg, 1982) demonstrated that there was considerable promise even for Canadian hedgers in using this market. The Canadian hedger had to take out parallel exchange hedges and also run residual risk that U.S. and Canadian mortgage interest rates might not move closely together, but the idea was feasible. Further study by C.M.H.C. (Gau and Capozza, 1982) revealed that the idea was feasible and readily combined with a Canadian mortgage option market, such as that being proposed by the Toronto Stock Exchange (Gau and Capozza, 1983).

In MRI we are faced with an idea precisely analogous to the mortgage default insurance of nearly three decades ago. Mortgage default insurance overcame a market imperfection wherein lenders priced default risk too high and caused borrowers to pay through periodic shortages of funds and higher interest rates. With mortgage insurance default risk was properly priced, by the insurer, and the efficiency of the mortgage market enhanced greatly. With MRI we have an analogous imperfection where lenders have imposed excessive interest rate risks on borrowers. A proper pricing of that risk, through established or soon-to-be established risk hedging markets, would greatly cut the expected costs of mortgage borrowing by households, would enable financial institutions to allocate mortgage credit efficiently without taking mortgage interest risk, and would also provide sufficient volume to enable an innovative financial market (the mortgage option market) to get launched and off to a firm and energetic start.

Mortgage interest rate risk proved to present near disastrous costs to many Canadian borrowing households during the explosion in interest volatility, especially in 1981. The improper allocation of interest rate risk to households represents a very significant imperfection in Canadian

mortgage markets, an imperfection with enormous social and economic costs as we saw. It is, in my opinion, the most pressing and serious issue facing the Canadian mortgage finance system now and over the coming decade.

Yet it is a problem with an exceptionally neat, inexpensive and highly efficient solution: mortgage renewal insurance (alternatively mortgage rate insurance). The solution need require no government subsidies, while it can materially enhance the efficiency of Canadian financial markets generally through providing a huge impetus to the successful introduction of an interest rate option and hedging vehicle, the proposal TSE mortgage option. Finally, C.M.H.C. can continue its role as an innovator in the Canadian mortgage finance system, an innovator which aids the private market through reducing market imperfections as per Smith's earlier observation (Smith, 1977, p. 12). In short, MRI is an idea whose time has clearly arrived, an idea which has great potential for protecting households from adverse interest rate shifts, for improving the efficiency of Canadian mortgage market (and other financial markets too through cross-hedging and arbitrage possibilities), for smoothing development cycles by providing interest rate hedging possibilities to developers so they do not get caught up in pro-cyclical interest rate movements, and for continuing a tradition of Canadian government reduction of mortgage market imperfections begun in the darkest days of the Great Depression in the 1930's with the movement toward the fully amortized long term mortgage.

Perhaps of greatest importance though is the need to begin such an MRI programme now, with interest rates low and with households on short maturity mortgages resulting from the past few years when longer maturities were either unavailable or very costly. Households are enormously vulnerable to

adverse interest rate shifts in the future both because rates are relatively low now (by standards of the past decade) and because short maturities expose them to renewals with greater frequency and with greater corresponding risk of being caught by rising rates. It should be kept in mind that an increase in mortgage rates from 10% to 12% represents a 20% increase in borrowing costs, whereas the same 2% increase from 20% to 22% represents a mere 10% increase, a considerably smaller burden on household cash flows. Therefore, the time to initiate MRI is in the immediate future as interest rate risks could be very significant in the future should there be any increase again in inflation rates. Moreover, the TSE mortgage option provides an ideal vehicle to implement the scheme economically and quickly. In short, the present instance is an excellent opportunity for innovation: the need exists; the vehicle is imminent; the gains are potentially enormous in economic and social terms.

The Tilt Problem and Its Solutions: A Critical Look

The tilt problem was "the" mortgage market issue of the 1970's. Starting with the increase in inflation rates in the early 1970's in both Canada and the United States, the tilt problem reared its head. As inflation and mortgage interest rates climbed the severity of the problem grew.

Essentially the tilt problem arises because anticipated inflation is fully capitalized into interest rates while only capitalized annually in household incomes. Therefore to quote Carr and Smith,

> This phenomenon is considered a tilt problem because inflation does not change the present value of future mortgage payments (which would be discounted at the higher nominal interest rate) but only changes the time profile of real mortgage payments, increasing them in early years and reducing them in later years. (Carr and Smith, 1983, pp. 209-210).

The result of the tilt is a cash flow squeeze for households during periods of high and volatile interest and inflation rates. In the longer run household incomes will increase constant monthly payment and of the standard level payment mortgage will easily be handled. However, in the short runmonthly payments can be expected to greatly exceed household cash flows. This poses a particularly acute potential problem for young households in the housing and mortgage market for the first time with minimal downpayment and no accumulated equity in a housing unit.

Here again we have an imperfection not terribly different from that of interest rate risk in that households have to bear the brunt of the tilt and short term cash flow problems present a barrier to entry into the housing and mortgage market. The imperfection results from the inability to match household cash flow time profiles with those of the mortgage instrument. The household has more than adequate income in expected present value terms, but it lacks a market vehicle to arbitrage future income to provide necessary current income or alternatively to change the mortgage payment stream so that it is consistent with household cash flow streams.

To overcome the tilt, an extensive series of conferences, proceedings, and research papers were undertaken during the decade of the 1970's (Modigliani and Lessard, 1975; C.M.H.C., 1982; Gau and Goldberg, 1983). The outcome was an explosion of alternative mortgage instruments intended to provide mortgage payment outflow streams that had similar time profiles to the cash inflow streams of borrowing households.

There was no limit to the ingenuity of designers of alternative mortgage instruments. The strategy was similar though, namely to match the

outflow and inflow streams of households and mortgage payments. The primary vehicles suggested to do this were Price Level Adjusted Mortgage (PLAM's), Graduated Payment Mortgages (GPM's), Shared Appreciated Mortgages (SAM's) and various combinations and complications of these three (Gau, 1981; Carr and Smith, 1983).

Common to all of these borrower-oriented mortgage designs is a need to provide lenders with a corresponding deposit instrument so that lenders can match the characteristics of these new designs with their deposit base. Otherwise the lending institutions will find themselves back in a position of having assets (new mortgage designs) and liabilities (traditional deposit mechanisms) that are unlikely to match in terms of maturity and interest yield characteristics. Their exposure to interest rate risk and periodic cash flow shortages would be enormous in such a situation. Thus at least as much attention needed to be given to alternative deposit instruments as to alternative mortgage instruments. A series of tax policies currently impede such deposit instrument design. Again, institutional inertia, uncertainty as to public acceptance of alternative deposit instruments and start-up costs stand in the way of much innovation here to date.

In any event, the mortgage designs have been worked out in considerable detail over the past decade. Alternative deposit instruments and the required tax treatment of these innovations are straightforward and follow directly from the nature of the alternative mortgage designs themselves. Minor technical issues remain to be resolved but we have certainly devoted sufficient intellectual capital to these issues to enable us to deal with them quickly and effectively should the need arise again in the reasonable future.

I seriously doubt, however, that we will have to rely on such devices. This doubts derives from a number of considerations all of which call into question the seriousness of the tilt problem in the coming decade. Without the tilt problem before us the need for alternative mortgage designs to overcome the tilt diminishes greatly.

For the following reasons, I consider it highly unlikely that the tilt problem will be an issue in Canadian residential mortgage finance for the remainder of this decade.

1. Risk averse consumers with record high savings will be able to have larger downpayments and require smaller mortgages and be less vulnerable to tilt.
2. Having been chastened by the recent recession/depression consumers are likely to seek smaller and more appropriate units within their range of easy affordability again reducing mortgage requirements and tilt vulnerability.
3. Lower actual and increasingly lower anticipated rates of inflation should lead to significant declines in mortgage interest rates, declines which are likely to be sustainable given the risk aversion of prospective borrowers. These lower rates obviate the tilt issue.
4. Following the above point, declining actual and anticipated rates of inflation should lead to a flattening of the yield curve as households seek to lock in reasonably high yields on long and medium term deposit instruments. The resulting increased flow of longer maturity deposits will bring back five year mortgages with little or no premium, again reducing or eliminating the tilt.

5. As actual and anticipated inflation rates fall we can also expect a fall in the real interest rate from its present level of 6%± to more usual 3-4%, further moving down nominal rates and with these lower rates removing tilt problems.

6. Despite the lessening or elimination of tilt problems with declining interest rates, alternative mortgage instruments still make some sense in the marketplace to provide borrowers with greater choice and flexibility and lenders with broader asset bases.

In sum, the tilt problem in my estimate is a problem of the last decade, not of the 1980's. Attention should turn away from this issue to focus on the interest rate risk issue discussed above, which is a real and continuing issue, and on the following issues relating to the availability and allocation of mortgage credit in the future.

Residential Mortgage Credit Availability: Some Elusive and Unaddressed Questions

A number of factors could contribute to constraints on residential mortgage availability. These could take the form of rising costs of credit (residential mortgage interest rates and related mortgage terms) and/or non-price credit rationing. These factors are sketched out below and discussed in turn. At the conclusion of the discussion a range of policy ideas is presented to overcome some of the availability constraints should they arise.

1. Rising yields in other sectors of the economy could attract capital to these sectors, reducing credit available to the residential

mortgage market. The current economic recovery and restructuring of the Canadian economy (and western economies more generally) will require massive injections of capital to retool plant and equipment, create new enterprises in new industries, and finance large-scale delayed natural resource projects. Tax policies to favour such economic restructuring and downplay tax advantages presently given to owner occupied housing could compensate somewhat for this movement of capital away from housing by reducing demands for housing capital somewhat. However, tax and other incentives to new economic activity could have significant implications for the mortgage sector (Tuccillo, 1983 makes analogous points for the U.S.).

2. Within the residential mortgage market there could also be a significant restructuring away from single-family and individual ownership toward investment and apartment housing. Low vacancy rates, changing demographic patterns and an aging population and smaller household size, and the possibility of weakening some of the long held advantages of homeownership (such as exemption from capital gains) all could combine to improve the economics of rental housing and shift scarce mortgage capital to the rental sector away from the single unit ownership sector. Financial institutions could also readily take an equity position in rental investment housing which is attractive to them and could lead them to shift funds into the rental sector and away from ownership. Despite the recent budget proposals extending some subsidy programmes for ownership housing, it is highly likely that in the next few years these subsidy and tax incentive programmes will cease as government monies will be required elsewhere to continue economic recovery, retooling and restructuring. RHOSP's, CHIP, CHOP, and others can be expected to give way to programmes which direct

human and financial capital to sectors in dire need. We are a well housed nation and diverting resources to the housing sector cannot have the same societal benefit as could the use of such capital in other sectors undergoing economic stress presently or sectors trying to climb out of their infancy.

3. Periodic tightening of the money supply to fine tune the present economic recovery and avert inflation can also be expected to place constraints on the availability of mortgage credit. Such periods of tight money have plagued the residential mortgage in the past and have led to both price and non-price rationing of residential mortgage credit as financial institutions tighten their credit policies to meet the more restrictive credit environment within which they must function. The 1974-75 period saw such non-price rationing where many financial institutions were placing limits on residential mortgages of $50,000 or 50% of value, whichever was less. Moreover, mortgage funds were allocated to branch offices and when these offices used up their allocations even old customers had to search elsewhere. A repeat of such conditions is not at all inconceivable over the remaining years of this decade as we struggle to regain lost economic growth and maintain some semblance of price stability.

4. The ultimate extension of such non-price rationing of mortgage credit in the housing sector would be spatial rationing or red-lining (Bourne, 1981, pp. 119-122; Downs, 1981, pp. 145-146). Evidence of red-lining in Canadian cities has been presented by Morrison (1979). The practice could spread as financial institutions seek to maximize returns and minimize risks after their enormously shaky lending practices of the late 1970's. It is plausible in this vein that whole provinces could be

red-lined or more likely rationed. Alberta and some of the Maritime Provinces with their boom-bust cycles might prove too risky, particularly in view of the current energy glut and real estate bust in Alberta. Such spatial discrimination needs to be monitored, established and dealt with promptly before the self-reinforcing nature of credit withdrawal can wreak its havoc. There is a major role for government to play in providing missing mortgage capital and/or extending special residential mortgage loan guarantees, regional economic development policies have a role here, as do servicing and neighbourhood improvement schemes, all of which are intended to stabilize local and regional economies and housing markets and thus obviate the need for red-lining.

Turning to prospective solutions to residential mortgage credit availability problems there are a number of avenues to be followed both by government and the private sector.

1. Government can get back into direct mortgage lending to stabilize and firm up local markets which face credit rationing. By extension, easing up on monetary policy can put sufficient credit into the economy to allow all needy sectors access to the funds they require. Both policies of course depend to some extent on the course of inflation and require reasonably stable prices for their implementation. Continued pursuit of mortgage default insurance and perhaps innovations and extensions for rationed housing markets is also worthwhile.
2. Mortgage rate insurance also would help here considerably as it would reduce riskiness of mortgage lending and borrowing and provide greater ability for the residential mortgage sector to attract funds in tight and competitive capital markets.

3. Encouragement of a mortgage banking system (which would be helped considerably by mortgage rate insurance and mortgage options) so that mortgage funds can be allocated more efficiently to those areas in need. Government could assist this area as well through the continued development of more detailed information on local housing and mortgage credit conditions to assist mortgage bankers and brokers as they move mortgage monies from lenders to borrowers.

4. Government might try to revive the notion of a secondary mortgage market to help provide additional liquidity in times of residential mortgage restraint and the expansion of real estate investment trusts (REIT's) and the possible easing of the present restrictions on their lending might also attract more money into the residential mortgage market and help to avert periodic availability problems. (See Poapst, 1975).

III. Concluding Comments

The Canadian residential mortgage finance system has evolved rapidly over the past four decades with great innovative energy coming from governments. Market imperfections were removed one-by-one enhancing the efficiency of the market in allocating mortgage capital to borrowers.

Recently, as a result of high and volatile levels of inflation and interest rates, several additional imperfections have come to the fore: mortgage interest rate risk; the tilt problem. Upon reviewing these issues it was concluded that the tilt problem is unlikely to present much of an issue over the rest of the 1980's. The mortgage interest rate risk issue is

however of enormous potential importance and should be dealt with promptly. Fortunately, solutions are close at hand in the form of mortgage renewal (or mortgage rate) insurance and a mortgage option. Both should be pursued vigourously. The gains are great and the costs minimal. As for the tilt problem, even if it should arise, it is unlikely to be as severe as during the 1979-1982 period, and in any case numerous alternative mortgage and alternative deposit instruments have been put forward to handle the problem easily.

Finally, it is conceivable that mortgage availability problems could arise with respect to the residential mortgage sector. Here again government can have a great positive impact by removing imperfections that block the availability of funds over time and over space and by restoring confidence and stability to the residential mortgage market and the housing markets and residential neighbourhoods which underlie residential mortgage markets.

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POOR

QUALITY

ORIGINAL